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9 Attorneys for Plaintiffs and Counterdefendants
 LUXE INTERNATIONAL INC., LUSSORI, INC.
 10 and VIALUXE INC.

11 UNITED STATES DISTRICT COURT
 12 NORTHERN DISTRICT OF CALIFORNIA
 13 SAN JOSE DIVISION

15 LUXE INTERNATIONAL INC., a Delaware
 16 corporation; LUSSORI, INC., a Delaware
 17 corporation; and VIALUXE INC., a Delaware
 corporation,

CASE NO. 08-CV-02241 JF

PLAINTIFFS AND COUNTERDEFENDANTS'
 REPLY TO COUNTERCLAIMS

18 Plaintiffs,

19 v.

20 JOHN MADSEN, an individual, and Does 1
 through 10,

21 Defendants.

22 AND RELATED COUNTERCLAIMS

24 Plaintiffs and counterdefendants Luxe International Inc., Lussori, Inc. and Vialuxe
 25 Inc. ("Plaintiffs") reply to the counterclaims brought by defendant and counterclaimant John
 26 Madsen ("Madsen") as follows:

27 1. Plaintiffs lack knowledge or information sufficient to form a belief
 28 regarding the truth of the allegations of paragraph 1, and on that basis deny each and every

1 allegation of that paragraph.

2 2. Plaintiffs admit the allegations of paragraph 2.

3 3. Plaintiffs admit that Madsen's employment terminated in April 2007.

4 Plaintiffs lack knowledge or information sufficient to form a belief regarding the truth of the
5 remaining allegations of paragraph 3, and on that basis deny those remaining allegations.

6 4. Plaintiffs admit that on April 16, 2008, they sent the letter attached to
7 Madsen's counterclaims as Exhibit A. Plaintiffs deny the remaining allegations of paragraph 4.

8 5. Plaintiffs deny the allegations of paragraph 5.

9 6. Plaintiffs deny the allegations of paragraph 6.

10 7. Plaintiffs deny the allegations of paragraph 7.

11 8. Plaintiffs deny the allegations of paragraph 8.

12 9. Plaintiffs admit that they sent the letter attached to Madsen's
13 counterclaims as Exhibit B to Swiss Watch Gallery. Plaintiffs deny the remaining allegations of
14 paragraph 9.

15 10. Plaintiffs deny the allegations of paragraph 10.

16 11. In answer to the allegations of paragraph 11, Plaintiffs restate the answers
17 contained in paragraphs 1 through 10 respectively and incorporate those answers by reference.

18 12. Plaintiffs admit that on April 16, 2008, they sent the letter attached to
19 Madsen's counterclaims as Exhibit A. Plaintiffs deny the remaining allegations of paragraph 12.

20 13. Plaintiffs deny the allegations of paragraph 13.

21 14. Plaintiffs deny the allegations of paragraph 14.

22 15. Plaintiffs deny the allegations of paragraph 15.

23 16. Plaintiffs admit that they sent the letter attached to Madsen's
24 counterclaims as Exhibit B to Swiss Watch Gallery. Plaintiffs deny the remaining allegations of
25 paragraph 16.

26 17. Plaintiffs deny the allegations of paragraph 17.

27 18. The remaining paragraphs in the counterclaims, as well as the paragraphs
28 located at page 9, lines 18-20 and page 11, lines 4-6, constitute Madsen's prayer for relief to

1 which no answer is required. To the extent that the prayer for relief purports to state any factual
 2 allegations, Plaintiffs deny them.

3 **AFFIRMATIVE DEFENSES**

4 As separate and distinct affirmative defenses to Madsen's alleged counterclaims,
 5 Plaintiffs allege as follows:

6 **First Affirmative Defense**

7 (Failure to State a Claim)

8 1. Madsen's purported counterclaims fail to state facts sufficient to constitute
 9 claims upon which relief can be granted.

10 **Second Affirmative Defense**

11 (Unclean Hands)

12 2. Madsen's purported counterclaims are barred in whole or in part by the
 13 doctrine of unclean hands.

14 **Third Affirmative Defense**

15 (Right to Amend)

16 3. Plaintiffs reserve the right to rely on all further affirmative defenses that
 17 become available or appear during discovery proceedings in this action, and further reserve the
 18 right to amend this Reply for the purpose of asserting any such additional affirmative defenses.

19 WHEREFORE, Plaintiffs pray that Madsen's counterclaims for declaratory relief
 20 be denied, for their attorneys' fees and costs incurred in this action, and for such other relief as
 21 the Court may deem just and proper.

22 Dated: June 24, 2008

LATHAM & WATKINS LLP

23 By: /s/ Jennifer L. Barry

24 Perry J. Viscounty
 Jennifer L. Barry

25 Attorneys for Plaintiffs
 26 and Counterdefendants
 27 LUXE INTERNATIONAL INC.,
 LUSSORI, INC. and VIALUXE INC.

CERTIFICATE OF SERVICE

I certify that on June 24, 2008, I electronically transmitted the attached document to the Clerk's Office using the CM/ECF System.

I further certify that on this same date, I caused the attached document to be sent via overnight delivery as a courtesy copy to:

Hon. Jeremy Fogel
United States Courthouse
280 South 1st Street
San Jose, CA 95113

I further certify that on this same date, I caused the attached document to be sent via regular U.S. mail to:

John Madsen
3223 Donner Way, #2B
Sacramento, CA 95817

I declare under penalty of perjury under the laws of the United States that the foregoing is true and correct. Executed on June 24, 2008.

/s/ Jennifer L. Barry

Jennifer L. Barry